

# Review of Investment Policy Statement

THE PALESTINIAN PENSION FUND FOR THE STATE ADMINISTRATIVE EMPLOYEES IN THE GAZA STRIP  
Statement of Investment Policy, Objectives, and Guidelines

## ADDENDUM A

### ASSET ALLOCATION AND CAPITAL MARKETS EXPECTATIONS

#### SUMMARY OF PORTFOLIO ALLOCATION AND INVESTMENT MANAGER BENCHMARKS

ASSET CLASS	INVESTMENT MANAGER	ALLOWABLE RANGE	TARGET ALLOCATION	BENCHMARK
<b>Domestic Equities</b>				
Large Cap	TBD	5-75%	18%	Standard & Poor's 500 Index
All Cap Value	TBD	0-15%	2.5%	Russell 3000 Value Index
Mid Cap Growth	TBD	0-15%	2.5%	Russell 2500 Growth Index
Small Cap Growth	TBD	0-15%	2.5%	Russell 2000 Growth Index
Small Cap Value	TBD	0-15%	2.5%	Russell 2000 Value Index
<b>International Equities</b>				
Developed Markets - Large	TBD	15-55%	30%	
Developed Markets - Small	TBD	5-20%	10%	MSCI EAFE Index
Emerging Markets	TBD	5-20%	10%	MSCI EAFE Index
<b>Hedge Fund of Funds</b>				
Absolute Return	TBD	0-50%	28%	MSCI Emerging Markets Index
Long/Short	TBD	0-25%	16%	HFRI FOF Conservative Index
Real Assets	TBD	0-25%	12%	HFRI Equity Hedge Index
Commodities	TBD	0-30%	9%	
Global Real Estate	TBD	0-10%	4%	DJ UBS Commodities Index
Natural Resources	TBD	0-10%	2%	MSCI ACW Real Estate Index
			3%	Goldman Sachs Natural Resources Index
<b>Fixed Income</b>				
US Intermediate	TBD	5-75%	14%	
		5-25%	4%	Barclays US Aggregate Bond Index
Multi-Strategy	TBD			
		0-15%	4%	Barclays US Aggregate Bond Index / HFRI Relative Value Arbitrage Index
High Yield	TBD	0-15%	2%	Merrill Lynch High Yield Index
International	TBD	0-15%	2%	Citigroup World Gov't Index
Emerging Markets	TBD	0-15%	2%	JP Morgan Emg Mkts Index
Cash Equivalents	TBD	0-5%	1%	90-Day Treasury Bill Index

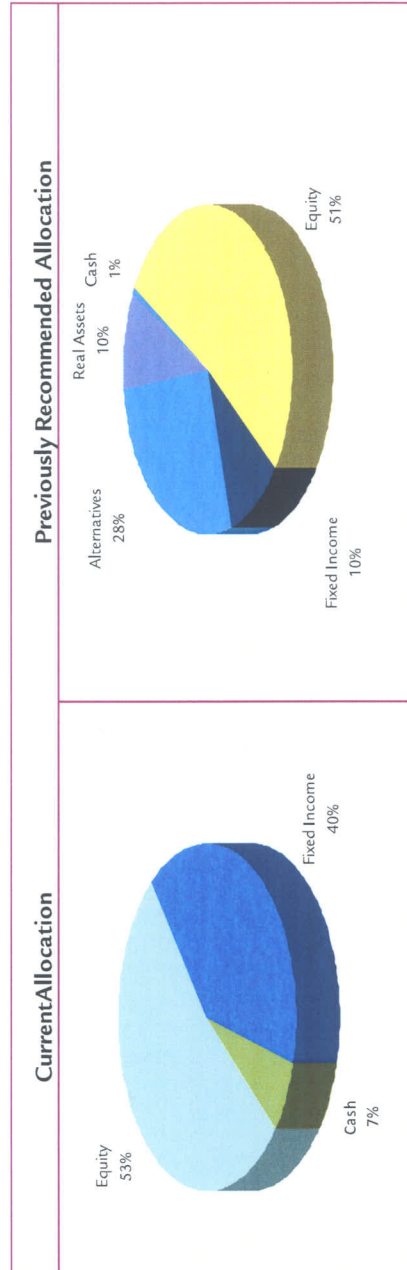
# Expected Return Methodology

Asset Class	Index	Methodology	Long-Term	Expected Return
Risk Free Rate	90-Day T-Bills		=	3.50%
Large Cap US	S&P 500	Risk Free Rate + Expected Return	=	9.00%
Small Cap US	Russell 2000	Risk Free Rate + Expected Return	=	10.75%
Global Energy	S&P North American Nat Resources	Risk Free Rate + Expected Return	=	12.50%
Global Real Estate	S&P/Citi World BMI Property	Risk Free Rate + Expected Return	=	9.00%
Large Cap International	MSCI EAFE	Risk Free Rate + Expected Return	=	10.00%
Small Cap International	S&P EPAC EMI	Large Cap Int'l + Expected Return	=	10.50%
Emerging Markets Equity	MSCI Emerging Markets	Risk Free Rate + Expected Return	=	15.25%
US Short-Term Fixed Income	Barclays 1-3 Yr Gov't	Risk Free Rate + Expected Return	=	5.00%
US Fixed Income	Barclays Aggregate Bond	Risk Free Rate + Expected Return	=	6.25%
US Municipal Fixed Income	Merrill Lynch Municipal, 5-7 Years	US Fixed Income + Expected Return	=	6.60%
US Long-Term Fixed Income	Barclays Long Term G/C	Risk Free Rate + Expected Return	=	6.75%
US High Yield	ML High Yield	Risk Free Rate + Expected Return	=	9.50%
International Fixed Income	Citi Non-US World Govt	Risk Free Rate + Expected Return	=	8.50%
Emerg Mkts Fixed Income	JPM Emerg Mkt Bond	Risk Free Rate + Expected Return	=	9.00%
Commodities	Dow AIG Commodity	Risk Free Rate + Expected Return	=	10.00%
Low Volatility Hedge FOF	HFRI FOF Conservative	Risk Free Rate + Expected Return	=	8.00%
Mid Volatility Hedge FOF	HFRI FOF Diversified	Risk Free Rate + Expected Return	=	10.25%
High Volatility Hedge FOF	HFRI FOF Strategic	Risk Free Rate + Expected Return	=	12.00%
Private Equity	Russell 1000	Large Cap US + Expected Return	=	12.75%

Expected returns for each asset class are determined using a risk-premium methodology which is reviewed and revised on an annual basis. The risk-premium methodology begins with the WaterStreet Investment Committee's 10 year expected return for 90 day Treasury Bills. The Committee reviews historic returns, current rates, and the current market environment to determine the expectation. The expected returns are simply a forecast of possible outcomes and in no way constitute a guarantee of future performance.



## Snapshot as of 7/31/2010

**Current Allocation (Index Weighted)**

Holding Period Return (beginning at 5/1/2009 when Investment Policy was executed: **+14.7% or \$15,634,703**

**Previously Recommended Allocation**

Holding Period Return (beginning at 5/1/2009 when Investment Policy was executed: **+21.6% or \$22,907,862**

# Snapshot Breakdown as of 7/31/2010

	Equity	Fixed Income	Alternatives	Real Assets	Cash & Equiv.	TOTAL
<b>Current Allocation (Indices)</b>						
S&P 500 Index	64,564,542					64,564,542
Barclays Interm Govt' Credit Bond Index		48,727,956				48,727,956
90-Day T-Bills					8,527,392	8,527,392
<b>Current Allocation Totals</b>	<b>\$ 64,564,542</b>	<b>\$ 48,727,956</b>	<b>\$ -</b>		<b>\$ 8,527,392</b>	<b>\$ 121,819,891</b>
<b>Previously Recommended Allocation</b>						
Vanguard 500 Index	10,446,074					10,446,074
Snow Capital Opportunity I	3,430,578					3,430,578
Turner Mid Cap Growth Instl	3,400,315					3,400,315
Keeley Small Cap Value I	3,319,880					3,319,880
Buffalo Small Cap	3,163,788					3,163,788
Thornburg International Value I	13,312,437					13,312,437
T Rowe Price International Discovery	14,737,442					14,737,442
Driehaus Emerging Markets Growth	15,350,131					15,350,131
Credit Suisse Commodity Return Strategy				4,948,655		4,948,655
Alpine International Real Estate				3,259,673		3,259,673
RS Global Natural Resources				4,169,892		4,169,892
PIMCO Total Return Instl		4,874,750				4,874,750
Driehaus Active Income			4,754,123			4,754,123
T Rowe Price High Yield		2,774,194				2,774,194
Loomis Sayles Global Bond Instl		2,561,187				2,561,187
PIMCO Emerging Markets Bond Instl		2,673,955				2,673,955
Goldman Sachs Absolute Return Tracker Fund			17,630,139			17,630,139
Goldman Sachs Absolute Return Tracker Fund			13,222,604			13,222,604
Cash					1,063,232	1,063,232
<b>Previously Recommended Allocation Totals</b>	<b>\$ 67,160,645</b>	<b>\$ 12,884,086</b>	<b>\$ 35,606,867</b>	<b>\$ 12,378,220</b>	<b>\$ 1,063,232</b>	<b>\$ 129,093,050</b>

•Previously Recommended Allocation Totals were derived from the Total Portfolio's back-dated estimated 5/1/2009 values and then used actual returns from mutual funds during holding period (5/1/2009 – 7/31/2010).